NATS

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25 September 2014

Dear Mr Gifford,

Response to 'NERL Oceanic Charges: Proposal for a charge cap – 2015-2019'

I am writing in response to the CAA's consultation on the subject above. NERL's high level comments are set out below. For completeness, I have recorded in the appendix our specific responses against the questions you have raised.

Risk to Regulatory Return
As your summary of Oceanic CP3 performance v forecasts shows, NERL's regulatory returns for the first three years of CP3 have been lower than the CAA assumed when the price control was set. This is because the Oceanic traffic forecast was not fulfilled and the company was unable to reduce its costs to the full extent required to offset the shortfall. This pattern is likely to continue in 2014/15 with traffic levels projected to be c.5% lower than the CAA's original assumptions. As a result, NERL's Oceanic return could be c. £2m (c.20%) cumulatively lower than the price control assumption. I draw this to your attention to highlight the higher risk to NERL's return in relation to Oceanic charges where there is no traffic volume risk sharing mechanism.

Pension Pass Through
We would just like to highlight that we expect to see Pension Pass Through applied in a consistent manner between the En Route business and the Oceanic business.

Price Profiling and Technology Shifts
We support the CAA's proposal for price profiling and also its position that it would be prepared to re-open the Oceanic price cap in the event of a technology shift during the control period (e.g. if a surveillance and communication capability were available).

Please do not hesitate to contact me if you have any queries regarding the above on louise.balmforth@nats.co.uk.

Kind regards

Louise Balmforth
Regulation Manager

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Appendix – Consultation Questions

Consultation Question	NERL Response
3.21 – Is it appropriate to continue to regulate Oceanic charges so long as that control is simple and easy to administer? If not, why not?	No concerns with the CAA's recommendations.
3.22 – Do you agree with the proposed form of regulation for Oceanic services? Mindful of the degree of market power, do you consider a different regulatory approach would be more proportionate given the scale of the business? If so, what would that approach comprise?	No concerns with the CAA's recommendations.
3.23 – Should the timeframe for an Oceanic charge control be aligned with the timeframe for the RP2 controls for Eurocontrol and terminal services? If not, why not?	No concerns with the CAA's recommendations.
3.24 – Should the basis of indexation of charges be changed from RPI to CPI (subject to the value of X in a CPI-X charge cap being expected to generate the same amount as the value of Z in an RPI-Z cap)?	No concerns with the CAA's recommendations.
3.25 – Is the approach proposed by the CAA to revise the Oceanic charge cap where the conditions set out in paragraphs 3.16-3.20 apply acceptable? If not, why not?	No concerns with the CAA's recommendations.
4.32 – Is it reasonable to apply assumptions consistent with those adopted in the UK-Ireland FAB Performance Plan for NERL's Eurocontrol business? If not, why not?	It seems reasonable to apply consistent assumptions such as inflation, traffic forecasts, and interest rates as those adopted in the UK-Ireland FAB Performance Plan for NERL's Eurocontrol business.
4.33 – Do you have any comments on the building block assumptions described in paragraphs 4.12-4.28 above?	No comments.
4.34 – Is it reasonable to apply profiling to arrive at a simple CPI-X charge control? If not, why not?	We support the CAA's proposal for price profiling.